

JPM-pp1

Asia Pacific Equity Research

25 March 2015

Agile Property Holdings Ltd (3383 HK)

Underweight

Price: HK\$4.60

24 Mar 2015

Price Target: HK\$4.00

PT End Date: 31 Dec 2015

Decent DPS; big margin squeeze; need a solution to de-stock

Agile's 2014's result was below expectation. While delivery and development margin was inline, the LAT payment was much higher than expected. Post-LAT margin was squeezed from 32.5% to 29.0%, and should deteriorate further in our view. Net margin post perpetual distribution was 9.5% in 2014. Final DPS was HK\$0.25, making the full year DPS to be at HK\$0.395 per share, implying 8.7% full year dividend yield. This is in line with expectations as the largest shareholders participated in a rights issuance late-2014.

Despite the so-called inventory clearing initiative, Agile's completed unsold inventory has increased further to ~4 mn sqm by our estimates, or up another 19% in 2H2014. The cash recovery rate was healthy, at close to 90%, the highest level since 2009, but is still low considering the low recovery in 2012 and 2013, meaning plenty of buyers have cancelled transactions, in our view. Cash level has further come down to only Rmb11.4 bn, with net gearing staying high at 105% (if perp is debt). Net cash outflow was Rmb2.9 bn in 2H2014.

We think the market is less likely to be excited about the DPS as it was for KWG, given that Agile pays an interim dividend as well. The focus is likely to be on the plan to de-gear, because if Agile cannot resolve the inventory problem, the company could see a further increase in funding cost and find it difficult to refinance towards end-2015. The current balance sheet should already be in the worst shape, given the slow-down in new-starts and construction capex, but recovery depends a lot on contracted sales as well.

Key focus on the result:

- Sales growth guidance
 - Margin guidance and when will margin stabilize
 - Management stability, and ways to diversify Chairman risk
 - More updates on plan to clear inventory, and to de-gear
 - Fund raising plan and cash flow guidance.
- The analyst briefing will be held via webcast, 5:30 pm today. [Link to webcast.](#)

Agile 2014 result summary

Sources: Company data, J.P. Morgan

	2H2013	1H2014	2H2014	% H/H	% Y/Y	2014	JPM 2014E	% Y/Y	vs JPM
Property development and decoration	19,687.6	16,654.8	20,381.8	22%	4%	37,036.6	36,806.2	7%	1%
Property management	292.1	326.0	357.1	10%	22%	683.1	632.8	25%	8%
Rental income	34.2	39.1	31.4	-20%	-8%	70.5	181.2	30%	-61%
Hotel operation	207.0	261.4	266.0	2%	29%	527.4	323.8	43%	63%
Gross Revenue	20,220.9	17,281.3	21,036.3	22%	4%	38,317.6	37,944.0	8%	1%
Selling and marketing expenses	(937.8)	(951.2)	(832.9)	-12%	-11%	(1,784.2)	(1,675.1)	17%	7%
Admin expenses	(615.7)	(793.0)	(644.4)	-19%	5%	(1,437.4)	(1,606.2)	12%	-11%
Total SG&A	(1,553.4)	(1,744.2)	(1,477.4)	-15%	-5%	(3,221.6)	(3,281.3)	15%	-2%
Property development and decoration	5,482.8	4,370.5	4,846.9	11%	-12%	9,217.3	9,015.2	-6%	2%
Property management	60.6	(1.3)	67.3	-5096%	11%	66.0	53.5	43%	23%
Rental income	14.6	7.8	12.2	56%	-17%	20.0	18.1	18%	10%
Hotel operation	(21.9)	(157.4)	(99.1)	-37%	353%	(256.5)	(197.5)	137%	30%
EBIT	5,536.2	4,219.6	4,827.3	14%	-13%	9,046.9	8,889.4	-8%	2%
Interest expenses	(34.8)	(169.0)	(40.5)	-76%	16%	(209.5)	(240.5)	200%	-13%
Operating profit	5,501.4	4,050.6	4,786.8	18%	-13%	8,837.4	8,648.8	-9%	2%
Share of associates / JCEs (mainly AGC)	(14.0)	(39.0)	(33.6)	-14%	140%	(72.6)	(10.0)	39%	626%
Profit before tax	5,487.4	4,011.5	4,753.2	18%	-13%	8,764.8	8,638.8	-9%	1%
LAT	(1,062.6)	(872.1)	(963.6)	10%	-9%	(1,835.7)	(1,823.1)	-4%	1%
Income tax	(1,500.1)	(1,258.1)	(1,741.0)	38%	16%	(2,999.1)	(2,495.0)	3%	20%

Minority Interests	(399.4)	(234.7)	(214.4)	-9%	-46%	(449.1)	(302.1)	-35%	49%
Distribution to Perpetual Securities	(183.2)	(177.1)	(177.7)	0%	-3%	(354.8)	(358.1)	4%	-1%
Core net profit	2,342.0	1,469.5	1,656.6	13%	-29%	3,126.1	3,660.6	-19%	-15%
Exceptional items	384.1	412.9	0.0	-100%	-100%	691.5	412.9	-22%	NM
Reported net profit	2,723.0	2,042.6	1,966.0	-4%	-28%	4,287.2	4,233.7	-12%	1%
Total DPS (HK\$)	0.330	0.145	0.250	72%	-24%	0.395	0.445	-17%	-11%
Reported EPS (Rmb)	0.790	0.585	0.563	-4%	-29%	1.228	1.213	-13%	1%
Core EPS (Rmb)	0.679	0.421	0.475	13%	-30%	0.896	1.049	-20%	-15%
Fully diluted EPS (Rmb)	0.766	0.385	0.766	99%	0%	1.151	1.137	-13%	1%
Financial									
Net debt / (cash)	23,966.5	27,973.0	30,891.8	10%	29%	30,891.8	30,313.9	29%	2%
Shareholders' equity	33,852.2	34,977.8	38,134.4	9%	13%	38,134.4	37,965.1	13%	0%
Net gearing	70.8%	80.0%	81.0%	1.0%	10.2%	81.0%	79.8%	10%	1.2%
Margins									
Gross development margin (pre LAT)	37.1%	33.3%	34.6%	1.3%	-2.5%	34.0%	33.7%	-4.0%	0.3%
Gross development margin (post LAT)	31.7%	28.1%	29.8%	1.8%	-1.9%	29.0%	28.8%	-3.4%	0.3%
EBIT margin	27.4%	24.4%	22.9%	-1.5%	-4.4%	23.6%	22.3%	-4.1%	1.3%
Operating margin	27.2%	23.4%	22.8%	-0.7%	-4.5%	23.1%	22.1%	-4.4%	1.0%
Net margin (before MI)	13.6%	10.1%	9.1%	-1.0%	-4.6%	9.5%	9.8%	-3.4%	-0.2%
SG&A % sales	-7.7%	-10.1%	-7.0%	3.1%	0.7%	-8.4%	-8.6%	-0.5%	0.2%
Effective tax rate	-27.3%	-31.1%	-36.4%	-5.3%	-9.1%	-20.8%	-21.8%	-1.2%	1.0%
LAT % sales	-5.4%	-5.2%	-4.7%	0.5%	0.7%	-8.1%	-6.8%	0.3%	-1.3%
Development properties									
Revenue from property sales	19,687.6	16,654.8	20,381.8	22%	4%	37,036.6	36,806.2	7%	1%
Cost of properties	(11,397.0)	(10,276.5)	(12,315.9)	20%	8%	(22,592.3)	(22,554.0)	15%	0%
Gross development profit	7,306.2	5,545.6	7,046.8	27%	-4%	14,444.3	14,252.2	-3%	1%
GFA recognized (sqm) - Subsidiary	1,764,535	1,750,000	2,241,877	28%	27%	3,991,877	3,511,349	24%	14%
Gross revenue psm (Rmb) - Subsidiary	11,157	9,517	9,091	-4%	-19%	9,278	10,482	-13%	-11%
Contracted sales (Rmb mn)	24,200	21,670	22,490	4%	-7%	44,160	44,160	9%	0%
Contracted sales (sqm)	2,117,000	2,205,000	2,383,000	8%	13%	4,588,000	4,588,000	32%	0%
ASP (Rmb psm)	11,431	9,828	9,438	-4%	-17%	9,625	9,625	-17%	0%

Investment Thesis

We believe most negatives on Agile, including a margin squeeze and high gearing (after adjusting perps to debt), are priced in. Agile's sales have outperformed the sector, as the chairman has held a cautious view on the sector and launched price cuts earlier than peers. We think this is the right strategy and could help Agile avoid upcoming competitive price cuts.

Valuation

Our Jun-15 PT of HK\$7.50 is based on a 5.0x 2014E/15E P/E. The multiple we use is on the low end, reflecting Agile's relatively higher-risk landbank (location and price) and high gearing.

Risks to Rating and Price Target

Potential upside risks include: (1) better-than-expected sell-through rates for Agile's projects; (2) the government putting in place supportive policies in low-tier cities; and (3) aggressive increase-stake activities by the Chen family. Key downside risks include: (1) a weakening in demand in lower-tier cities; (2) less-than-expected contracted sales; and (3) slippage of completion schedules.

China / Hong Kong Property

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31-May-07	OW	8.17	11.50
17-Sep-07	OW	15.96	18.00
26-Nov-07	OW	13.66	19.00
01-Feb-08	OW	9.47	14.00
20-Apr-08	OW	8.19	10.70
07-Jul-08	OW	7.46	9.00
28-Jul-08	N	7.52	8.00
11-Sep-08	N	4.26	4.30
19-Jan-09	N	2.74	2.55
02-Mar-09	UW	2.65	2.30
15-Apr-09	UW	5.90	5.20
24-Jun-09	N	10.44	10.50
10-Sep-09	N	10.60	12.00
03-Nov-09	N	9.99	12.50
08-Jan-10	OW	11.66	14.50
16-Apr-10	OW	9.60	13.00
07-Jun-10	OW	8.22	9.50
23-Aug-10	OW	9.43	12.40
18-Oct-10	OW	10.66	14.40
11-Nov-10	OW	11.72	15.20
17-Mar-11	OW	10.06	14.00
19-Aug-11	N	10.60	13.30
25-Oct-11	N	5.96	7.60
23-Feb-12	OW	9.89	13.00
17-Aug-12	OW	8.86	12.50
30-Nov-12	OW	10.10	12.40
17-Jan-13	OW	11.28	14.00
26-Mar-13	OW	9.05	13.10
22-Jul-13	OW	7.92	11.00
16-Aug-13	OW	8.57	10.00
27-Nov-13	N	8.72	10.00
30-Mar-14	UW	6.36	6.00
22-Jun-14	N	5.33	5.90
31-Jul-14	N	6.66	7.50
27-Aug-14	N	6.20	7.35
22-Sep-14	N	5.39	6.40
13-Oct-14	UW	4.77	4.00
16-Oct-14	UW	3.96	3.60
30-Oct-14	UW	4.17	4.00

<http://gfd-app.emea.jpmchase.net:6080/server/console/chart?shareClassId=504435&shareClassServerId=4&chartDesignation=1&actionType=C>

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